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SUBJECT: IMPROVING IRAQI DELIVERY OF ESSENTIAL SERVICES  
REF: BAGHDAD 3185

Classified By: Ambassador Ryan Corcker, reasons 1.4(b,d)

11. (SBU) SUMMARY: With significant improvements in security, the Iraqi public is becoming increasingly impatient with electricity and fuel shortages and deficiencies in delivery of essential services. The GOI must be seen as recognizing the problem and working to improve essential services. To do so, it must focus on four measures:

- Quickly expend funds on the right capital projects to expand capacity;
- Develop an Operations and Maintenance (O-and-M) focus;
- Develop better government coordination and processes; and
- Train more people, more effectively, to provide essential services.

These are areas where the USG and other international donors traditionally focus their assistance and can do so now that the GOI has its own substantial revenues and is seeking technical assistance in lieu of project funding. In the long run, the GOI will have to remove price subsidies for electricity, fuel, water, and services to capture production costs more adequately and as a demand-control measure. END SUMMARY.

#### A Growing Problem

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12. (SBU) When he took up the position of Deputy Prime Minister this summer, Rafi al-Issawi was given the task of coordinating the Iraqi government's efforts on essential services. Issawi's early steps suggest he is ready to confront the daunting challenge. Issawi has organized several meetings with provincial and local government officials (reftel), and traveled extensively to assess the situation in the provinces. He has brought the ministers responsible for services delivery together with local officials. While the meetings have reinforced GOI transparency and accountability, the provincial and local government officials vented about inadequate supplies of electricity, fuel, and water and poor delivery of sewage, public health, road and bridge repair, and Public Distribution System (PDS) services. The dialogue thus far has generally remained constructive (and sometimes descended into wonky details of governance), but central government credibility will be on the line as local government officials monitor how well the central government follows up on the specific problems raised. Issawi's next step will be to convene a meeting of the full GOI Services Committee (made up of 12 ministers) in late October.

13. (C) Issawi's efforts are timely, since the Iraqi public has become restive about the poor state of services delivery. Wire services reported that about 1,000 people took part in a September 16 rally in central Baghdad called by the Federation of Workers Councils and Unions to demand Electricity Minister Karim's resignation and the elimination of corruption in the ministry, which was followed by rallies

in other cities. (Note: The union is reportedly heavily infiltrated by Jaysh al-Mahdi (JAM), so it could very well have an ulterior political motive that is exploiting popular discontent over electricity.) Now that Iraq is enjoying greater security and stability, with public markets becoming more active and street traffic picking up, the GOI has to shift quickly to improving essential services to build public support ahead of national elections in 2009. We have some indications that PM Maliki has turned his attention to this task, demanding in particular that Electricity Minister Karim and Oil Minister Shahrastani deliver concrete results.

#### Where We Are -- Electricity

14. (SBU) With regard to essential services, electricity is the key ingredient and its shortage a major source of public dissatisfaction. Other services (sanitation, road repair, public health) have a less direct impact on the quality of daily life and perhaps do not compare as unfavorably to conditions under Saddam, unlike electricity, which, at least in Baghdad, was available 24 hours a day. The hot summer (with temperatures soaring above 120 degrees) and a shortage of rainfall, which has reduced hydroelectric output, have aggravated shortfalls in electricity supply this year. A lack of power has not only meant no electricity for air conditioning, fans, and refrigeration, it can also stop operation of pumps for irrigation and water distribution (and pumps that individual households use to draw municipal water for their tanks), hospitals that provide medical services, and refineries to produce gasoline and diesel for private generators. (Note, however, that water treatment plants,

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hospitals, and refineries are among the critical facilities that are allocated electricity on an uninterrupted basis.)

15. (SBU) At the same time, although the public is sensitive to electricity shortages that, in some neighborhoods in Baghdad, mean that households have electricity from the public grid for only a few hours per day, Iraq's middle and upper classes supplement power from the national grid with contracts with private generation operators and use of their own generators. This system has its shortcomings, however. The private generation operators are not always reliable and poor quality fuel means frequent breakdowns of personal generators. The personal generators also provide only enough power for a few critical appliances, like a refrigerator. The supplemental electricity sources, however, do keep public dissatisfaction somewhat in check.

#### Where We Are -- Other Services

16. (SBU) Sanitation and water are inadequate for the vast majority of the population. The primary reasons are an aging infrastructure that has had no real investment since the 1970s, inadequate maintenance, power shortages, theft, understaffing and low capacity. At present, there are 16 conventional sewage treatment facilities in Iraq with an estimated capacity of 1.2 million cubic meters per day. These could serve only about 20 percent of the population, even if fully operational. After 2003, only one plant was partially functioning. Nine have since been rehabilitated by the USG, and a new one at Fallujah is under construction and due to be operational in September 2009. However, even the refurbished plants do not operate at full capacity. The potable water system is in slightly better shape. There are over 1400 water treatment plants, most of small capacity. The USG has rehabbed or expanded eight of the largest, and five new ones are complete or in progress. These plants have the capacity to serve over 8.4 million people. As with the sewage system, the plants are operating below capacity, primarily due to inadequate maintenance, understaffing or lack of resources.

¶7. (SBU) Iraq's education and health services have suffered especially from the "brain drain" caused by poor security and the looting that followed Saddam's fall. Although as many as 800 doctors have returned to Iraq, according to media reporting, the Ministry of Health (MoH) estimates that 8,000 have left since 2003. The WHO estimates that, in the first half of the decade, Iraq had seven doctors for every 10,000 people, or less than a third of the ratio in neighboring Jordan. In an effort to attract more doctors, MoH has raised salary levels and, to improve security, recently proposed that doctors be permitted to carry guns. Iraq's 172 public hospitals with 30,000 beds falls far short of the International Committee of the Red Cross estimate that 80,000 beds are required.

#### Where Iraq Started

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¶8. (SBU) Although politicians who attack Electricity Minister Karim and his fellow ministers argue that more progress should have occurred in the five years since Saddam's fall, the criticism glosses over the enormity of the task and the challenges that have been overcome. The Iran-Iraq War and the First Gulf War led to destruction of infrastructure that, while quickly repaired after the First Gulf War, deteriorated severely under sanctions. Damage incidental to the 2003 invasion, and more significantly the post-invasion looting, aggravated poor conditions. U.S. engineers who first inspected Iraq's power plants, for example, were shocked and dismayed by the deterioration caused by lack of proper maintenance and repairs. Electricity, oil refining and transport, and water and sewage, moreover, are all complex systems that cannot be fixed piecemeal, since improvements in one area simply lead to a bottleneck elsewhere.

¶9. (SBU) Finally, deterioration in security complicated repair and upgrade efforts and, in some cases, led to the renewed destruction of rehabilitated facilities. More broadly, assassination and kidnappings of senior and middle management (and their families) had a negative affect on the managerial class. Health services and overall capabilities also suffered as physicians, nurses, engineers, and other technically qualified people fled Iraq to Jordan, Syria, Iran, and elsewhere. Those remaining focused more on their security than doing their jobs well.

¶10. (SBU) We can see what progress has been made by examining electricity supply. Coalition reconstruction funding provided \$4.3 billion for Iraq's electricity sector, and the Ministry of Electricity has invested an additional \$6

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billion. The electricity grid, which underserved the remainder of Iraq to provide continuous service to Baghdad under Saddam, has been opened up to the entire country and now provides 50-55% of national demand. In the spring of 2008, the national grid served up to 65% of total demand and, from September 2007-March 2008, total megawatt-hours were 18% greater than the preceding period. No system-wide blackouts occurred over the peak summer months. A 6,000 MW peak in generation capacity was reached in July. Despite such gains, however, demand outside Baghdad has increased by an estimated 70% over the last four years, outstripping increases brought about by investment in new generation capacity.

#### The Way Forward

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¶11. (C) As senior Iraqi officials have said clearly this year, the focus on American and other donor efforts in Iraq needs to be on capacity building and technical assistance, not on physical reconstruction. The GOI must move swiftly to use its oil revenues to improve delivery of essential services. We believe that it can do so by acting aggressively with four, interlinked priorities:

-- The GOI must quickly expend funds on the right capital projects to expand capacity.

Choosing the right capital projects implies a deliberate planning process that ensures a holistic approach to fixing essential services delivery systems. In some cases, such as in the petroleum sector, the GOI will need to rely on foreign partners or contractors. The government will launch talks with international oil companies this month on long-term service contracts. The Electricity Ministry is moving ahead with procurement of new equipment that will double existing capability. Neither of these steps, however, will have a short-term impact.

-- The GOI must develop an Operations and Maintenance (O-and-M) focus.

Like many developing countries, Iraq commonly takes the approach with complicated machinery of operating and repairing, rather than performing the maintenance and parts replacement required to prevent breakage. This approach shortens the usable life of (often USG-funded and installed) plant and equipment. The GOI also fails adequately to budget for O-and-M costs. When the USG funded an Operations, Maintenance, and Sustainment (OMS) program, the Ministry of Electricity was able to squeeze out as much as 30% additional power from its existing power stations. The Ministry of Electricity recently concluded its own OMS agreement with an international firm specializing in this field, which should provide short-term improvements.

-- The GOI must develop better government coordination and processes.

Coordination is particularly important between the Ministries of Oil and Electricity, to ensure that the proper fuel is delivered in the right quantities to newly built power stations. Current Byzantine procurement and contracting procedures hamper funding for new construction and constrain the maintenance program by making procurement of spare parts difficult. Government authority must be decentralized, to allow lower levels of bureaucracy greater funding and decision-making authority and to allow local governments to act with more autonomy.

-- The GOI must train more people, more effectively, to provide essential services.

This is particularly critical in the health and education fields. In addition, Iraq's isolation under U.N. sanctions has resulted in two generations with limited exposure and understanding of international standards and practices. The decline in educational standards has also meant a decline in the professional and technical education required to build, operate and maintain the infrastructure needed for services delivery.

¶12. (U) Eventually, the GOI will have to raise prices for electricity, fuel, water, and other services to cover the real costs of production and delivery, although doing so during conditions of extreme shortage would be disruptive. Until it phases in price increases, however, the shortages are likely to continue. The first step could be for the government to reform its transfer pricing mechanisms, so that the Ministry of Electricity, for example, would begin paying prices for fuel that better reflected market prices.

¶13. (C) Improvements in services delivery is an inherently long-term task, because the necessary investments

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(construction of power plants and refineries, education of teachers, doctors, and nurses, etc.) have a long lead time. At the same time, however, the GOI should implement immediate and visible steps to demonstrate its commitment to the task.

An immediate focus on operations and maintenance expanded to cover all power stations, water treatment plants, and other infrastructure could yield quick dividends. The GOI could also take additional rhetorical steps, such as an action plan or a moratorium on grandiose schemes until services improve, to demonstrate its commitment. Finally, the GOI could further expand employment generating programs, such as street sweeping or trash collection and removal, which would be more visible and immediate than the capital construction projects that are also necessary. Otherwise, if the public undergoes another hot summer and loses faith in the government, problems with essential services could become a destabilizing factor.

#### The USG Role

¶14. (U) In addition to Iraq Reconstruction and Relief Fund (IRRF)-funded infrastructure projects, the USG has provided critical support in key areas of essential services delivery.

In particular, the Infrastructure Security Program (ISP) has established Pipeline Exclusion Zones (PEZs) that have halted sabotage of oil pipelines to refineries, allowing the Ministry of Oil to maintain its production of refined products such as diesel and kerosene. In addition to the ISP, the Provincial Reconstruction Development Committee (PRDC) program has strengthened provincial government by developing their ability to deliver essential services. These Economic Support Funds (ESF) funds are generally used for small-scale community development projects. The U.S. military continues to provide support and assistance for infrastructure security, for example, by monitoring the transition of Oil Police from the Ministry of Oil to the Ministry of Interior. The U.S. military has used funds from the Commander's Emergency Response Program to build schoolhouses and other essential services facilities for local governments.

¶15. (SBU) Scarce USG assistance funds are today focused on capacity development. Together with coalition partners, the Embassy and MNF-I are trying to pinpoint GOI capacity gaps and structural problems. Examples of current efforts include:

- MNF-I uses CERP and ICERP funds to effect short-term, localized improvements in services.
- The Public Finance Management Action Group (PFMAG) deploys small teams of fiscal experts to assist national and regional authorities in executing their budget more quickly and effectively.
- Experts provided through ITAO, USAID and other USG agencies advise ministries and local government bodies; these experts and associated training programs aim to build both short- and long-term capabilities, improve internal GOI coordination, and accelerate the procurement of the sort of international consultants that can provide the skills the GOI is lacking.

¶16. (C) Comment: It is appropriate that the USG move out of the business of building Iraq's infrastructure. But we need to remain engaged in the business of advising the GOI on how to most efficiently improve its delivery of services. The gains we have achieved in this country in recent years are too precious to risk them being squandered by the GOI failing to move forward in the best possible way to meet urgent public demands for services. Small amounts of technical assistance will permit us to meet in a timely manner GOI requests for limited support and assistance. These in turn can pave the way for, and accelerate, GOI efforts to contract for the large-scale expertise they need to design and execute a better functioning system.

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